

**Report of the  
PUBLIC EMPLOYEE RETIREMENT  
ADMINISTRATION COMMISSION  
on the Examination of the  
Hampshire County  
Contributory Retirement System  
For the Three Year Period  
January 1, 1999 - December 31, 2001  
PERAC 2001: 09-008-04**

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March 9, 2004

The Public Employee Retirement Administration Commission has completed an examination of the **Hampshire County** Retirement System pursuant to G.L. c. 32, s. 21. The examination covered the period from January 1, **1999** to December 31, **2001**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Harry Chadwick and Robert Madison who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton  
Executive Director

## **Hampshire County Retirement System**

### **EXPLANATION OF FINDINGS AND RECOMMENDATIONS**

#### **FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001**

##### **1. MEMBERSHIP CONTRIBUTIONS**

- a) Based on inspection and inquiry, it was determined that two-thirds of all governmental units administered by the Hampshire County Retirement Board continue to lack a uniform method of correctly reporting monthly membership contributions (this was also noted in the previous PERAC audit ending December 31, 1998). The Hampshire County Retirement Board administers thirty-six (36) governmental units. PERAC auditors could not verify that 27 of the 36 towns, regional school districts or housing authorities included or did not include unauthorized payments (such as, overtime pay or work detail pay) in employee regular wages. As a result of the current reporting system in place, verification of contribution amounts is impossible.
- b) The auditors sampled current retiree three-year calculations and could not verify, using existing reports, if the three-year salary averaging included or excluded unauthorized payments such as overtime wages or work detail wages.
- c) When the Treasurers of the thirty-six governmental units submit payroll data to the Hampshire County Retirement Board, the Treasurers must certify, in writing, that the employee payroll data remitted to the retirement system is in accordance with the provisions of G.L. c. 32. PERAC auditors determined that the Treasurers in 16 of the 36 towns, school districts and housing authorities that make up the Hampshire County Retirement System, are not certifying that the monthly employee payroll data is accurate and correct.

##### **Recommendations:**

- a) Reporting of member contributions should be made on a prescribed form for all governmental units to report member contributions. The prescribed form should be consistent with M.G.L. c. 32 § 22(1)(h) and could include information such as the following: 1) name; 2) social security number or employee number; 3) compensation by type: total, regular, overtime, and 2% excess; 4) contribution amount; 5) contribution rate; 6) membership date; and 7) any other member information deemed appropriate.
- b) When retirement unit Treasurers submit historical salary information to the Hampshire Retirement System, the retirement unit Treasurers must identify unauthorized payments from reported wages.
- c) The Hampshire Retirement Board must establish a program to ensure Treasurers' certify, in writing, that employee payroll data is accurate and correct.

## **Hampshire County Retirement System**

### **EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)**

**FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001**

#### **Board Response:**

- a) Regional systems have multiple unit employers who are not uniform in size, budget resources, or computer resources. In consideration of unit employers having different needs and resources relative to computerized payroll software, the Board's focus for the prescribed format of reports is on the purpose and the content of the reports. Consistent with M.G.L. c. 32, § 22(1)(h), the Board prescribes the purpose and content for the monthly report of contributions to include the following data: 1) name; 2) social security number or employee number; 3) position, group, or department; 4) deduction rate; 5) "regular compensation", as defined by M.G.L. c. 32; and 6) contribution amounts deducted, in accordance with M.G.L. c. 32, § 22. The Board accepts the presentation of prescribed data to be consistent with the payroll system available to the individual unit employers.

Treasurers are responsible for and certify to the accuracy of the reports as excluding all unauthorized payments, such as overtime pay or work detail pay.

The member contribution rates are verified using additional source documents, maintained by the retirement board, as a comparison to the contribution rates listed on employer's monthly report of contributions. Such is necessary because membership date with the current employer is not a definitive test in ascertaining that appropriate contribution rate has been applied. Prior membership service (inactive, transferred, or withdrawn), dual or concurrent membership service are also factors that must be considered in determining the appropriate contribution rate for an individual member.

To the best of our knowledge no valid errors were found in the auditors' sampling to justify a concern with our methodology of verification.

- b) When historical salary information is requested, unit treasurers are instructed and certify that reports contain only "regular compensation", as defined by M.G.L. c. 32. Thereby, unauthorized payments are certified as excluded from reported wages. The Board also uses multiple source documents and reports to verify the accuracy of calculations and confirm with the employer that "unauthorized payments" such as overtime are not included.

To the best of our knowledge, no errors were found in the auditors' sampling to justify a concern with our method of verifying the accuracy of salary calculations.

- c) The Board has noted that in the audit period, some of the Treasurers were inconsistent in their statements of certification of monthly reports. Treasurers have been reminded of their responsibility to certify each and every monthly report. The Board is monitoring the Treasurers for compliance with this requirement.

# Hampshire County Retirement System

## STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1999  
AND ENDING DECEMBER 31, 2001**

<b>FOR THE PERIOD ENDING DECEMBER 31,</b>			
<b>ASSETS</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
Cash	\$3,561,641	\$3,199,572	\$4,241,043
Short Term Investments			
Fixed Income Securities (at book value)	25,842,879	36,786,769	35,740,147
Equities	34,737,647	29,988,921	35,187,860
Pooled Short Term Funds			
Pooled Domestic Equity Funds	27,779,328	22,027,522	18,820,388
Pooled International Equity Funds	14,671,807	18,031,300	18,032,099
Pooled Global Equity Funds			
Pooled Domestic Fixed Income Funds			
Pooled International Fixed Income Funds			
Pooled Global Fixed Income Funds			
Pooled Alternative Investment Funds	661,601	663,895	0
Pooled Real Estate Funds	8,646,553	9,897,019	6,853,291
Pooled Domestic Balanced Funds			
Pooled International Balanced Funds			
PRIT Cash Fund			
PRIT Core Fund			
Interest Due and Accrued	292,776	283,911	282,759
Accounts Receivable	318,775	386,887	450,418
Accounts Payable	(142,678)	(427,972)	(211,897)
<b>TOTAL</b>	<b><u>\$116,370,329</u></b>	<b><u>\$120,837,824</u></b>	<b><u>\$119,396,107</u></b>
<b>FUND BALANCES</b>			
Annuity Savings Fund	\$38,475,611	\$35,723,881	\$33,593,118
Annuity Reserve Fund	11,751,896	11,410,022	10,582,011
Pension Fund	12,865,162	12,877,966	12,978,712
Military Service Fund	13,730	20,641	22,133
Expense Fund	0	0	0
Pension Reserve Fund	53,263,930	60,805,314	62,220,134
<b>TOTAL</b>	<b><u>\$116,370,329</u></b>	<b><u>\$120,837,824</u></b>	<b><u>\$119,396,107</u></b>

# Hampshire County Retirement System

## STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1999  
AND ENDING DECEMBER 31, 2001**

	<b>Annuity Savings Fund</b>	<b>Annuity Reserve Fund</b>	<b>Pension Fund</b>	<b>Military Service Fund</b>	<b>Expense Fund</b>	<b>Pension Reserve Fund</b>	<b>Total All Funds</b>
<b>Beginning Balance (1999)</b>	\$35,359,288	\$10,142,807	\$13,271,321	\$22,814	\$0	\$44,879,893	<b>\$103,676,124</b>
Receipts	4,851,169	301,400	7,580,218	491	1,055,680	17,339,218	<b>31,128,176</b>
Interfund Transfers	(1,303,099)	1,305,390	(2,142)	(1,173)	0	1,024	<b>(0)</b>
Disbursements	(5,314,240)	(1,167,587)	(7,870,685)	<u>0</u>	(1,055,680)	<u>0</u>	<b>(15,408,192)</b>
<b>Ending Balance (1999)</b>	<b>33,593,118</b>	<b>10,582,011</b>	<b>12,978,712</b>	<b>22,133</b>	<b>0</b>	<b>62,220,134</b>	<b>119,396,107</b>
Receipts	4,892,748	326,641	8,014,693	428	913,717	(1,430,266)	<b>12,717,961</b>
Interfund Transfers	(1,803,293)	1,795,439	(5,672)	(1,920)	0	15,446	<b>0</b>
Disbursements	(958,692)	(1,294,069)	(8,109,766)	<u>0</u>	(913,717)	<u>0</u>	<b>(11,276,244)</b>
<b>Ending Balance (2000)</b>	<b>35,723,881</b>	<b>11,410,022</b>	<b>12,877,966</b>	<b>20,641</b>	<b>0</b>	<b>60,805,314</b>	<b>120,837,824</b>
Receipts	5,478,425	341,145	9,009,282	1,455	1,000,375	(7,546,609)	<b>8,284,073</b>
Interfund Transfers	(1,323,029)	1,316,203	9,968	(8,366)		5,225	<b>0</b>
Disbursements	(1,403,666)	(1,315,473)	(9,032,054)	<u>0</u>	(1,000,375)	<u>0</u>	<b>(12,751,568)</b>
<b>Ending Balance (2001)</b>	<b><u>\$38,475,611</u></b>	<b><u>\$11,751,896</u></b>	<b><u>\$12,865,162</u></b>	<b><u>\$13,730</u></b>	<b><u>\$0</u></b>	<b><u>\$53,263,930</u></b>	<b><u>\$116,370,329</u></b>

# Hampshire County Retirement System

## STATEMENT OF INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1999  
AND ENDING DECEMBER 31, 2001**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2001	2000	1999
<b>Annuity Savings Fund:</b>			
Members Deductions	\$4,373,961	\$4,045,495	\$3,737,885
Transfers from other Systems	399,875	131,468	318,340
Member Make Up Payments and Redeposits	51,704	42,916	80,015
Investment Income Credited to Member Accounts	<u>652,885</u>	<u>672,869</u>	<u>714,928</u>
<b>Sub Total</b>	<b><u>5,478,425</u></b>	<b><u>4,892,748</u></b>	<b><u>4,851,169</u></b>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited Annuity Reserve Fund	<u>341,145</u>	<u>326,641</u>	<u>301,400</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems	200,995	187,539	167,692
Received from Commonwealth for COLA and Survivor Benefits	556,369	580,581	834,965
Pension Fund Appropriation	<u>8,251,918</u>	<u>7,246,573</u>	<u>6,577,561</u>
<b>Sub Total</b>	<b><u>9,009,282</u></b>	<b><u>8,014,693</u></b>	<b><u>7,580,218</u></b>
<b>Military Service Fund:</b>			
Contribution Received from Municipality on Account of Military Service	1,084	0	0
Investment Income Credited Military Service Fund	<u>371</u>	<u>428</u>	<u>491</u>
<b>Sub Total</b>	<b><u>1,455</u></b>	<b><u>428</u></b>	<b><u>491</u></b>
<b>Expense Fund:</b>			
Expense Fund Appropriation	0	0	0
Investment Income Credited to Expense Fund	<u>1,000,375</u>	<u>913,717</u>	<u>1,055,680</u>
<b>Sub Total</b>	<b><u>1,000,375</u></b>	<b><u>913,717</u></b>	<b><u>1,055,680</u></b>
<b>Pension Reserve Fund:</b>			
Federal Grant Reimbursement	65,887	18,382	17,054
Pension Reserve Appropriation	137,468	134,287	514,350
Interest Not Refunded	26,525	23,192	14,941
Excess Investment Income	<u>(7,776,489)</u>	<u>(1,606,127)</u>	<u>16,792,874</u>
<b>Sub Total</b>	<b><u>(7,546,609)</u></b>	<b><u>(1,430,266)</u></b>	<b><u>17,339,218</u></b>
<b>TOTAL RECEIPTS</b>	<b><u>\$8,284,073</u></b>	<b><u>\$12,717,961</u></b>	<b><u>\$31,128,176</u></b>



# Hampshire County Retirement System

## STATEMENT OF DISBURSEMENTS

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1999  
AND ENDING DECEMBER 31, 2001**

<b>FOR THE PERIOD ENDING DECEMBER 31,</b>			
<b>Annuity Savings Fund:</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
Refunds to Members	\$868,170	\$559,017	\$497,132
Transfers to other Systems	<u>535,497</u>	<u>399,675</u>	<u>4,817,109</u>
<b>Sub Total</b>	<b><u>1,403,666</u></b>	<b><u>958,692</u></b>	<b><u>5,314,240</u></b>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	1,245,537	1,176,508	1,081,684
Option B Refunds	<u>69,936</u>	<u>117,561</u>	<u>85,903</u>
<b>Sub Total</b>	<b><u>1,315,473</u></b>	<b><u>1,294,069</u></b>	<b><u>1,167,587</u></b>
<b>Pension Fund:</b>			
Pensions Paid:			
Regular Pension Payments	6,401,617	6,078,058	5,408,287
Survivorship Payments	379,840	355,961	365,910
Ordinary Disability Payments	106,941	101,794	107,894
Accidental Disability Payments	1,122,824	1,090,871	1,025,626
Accidental Death Payments	307,685	289,380	294,288
Section 101 Benefits	33,523	32,638	30,120
3 (8) (c) Reimbursements to Other Systems	679,623	161,064	638,561
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
<b>Sub Total</b>	<b><u>9,032,054</u></b>	<b><u>8,109,766</u></b>	<b><u>7,870,685</u></b>
<b>Military Service Fund:</b>			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>			
Board Member Stipend	17,601	13,500	10,750
Salaries	234,250	214,339	204,746
Legal Expenses	5,000	5,000	5,057
Medical Expenses	101	57	1,668
Travel Expenses	16,132	13,998	10,427
Administrative Expenses	139,232	98,601	180,102
Furniture and Equipment	12,425	14,161	77,614
Management Fees	430,714	420,726	451,979
Custodial Fees	77,003	87,336	68,334
Consultant Fees	<u>67,917</u>	<u>46,000</u>	<u>45,004</u>
<b>Sub Total</b>	<b><u>1,000,375</u></b>	<b><u>913,717</u></b>	<b><u>1,055,680</u></b>
<b>TOTAL DISBURSEMENTS</b>	<b><u>\$12,751,568</u></b>	<b><u>\$11,276,244</u></b>	<b><u>\$15,408,192</u></b>

# Hampshire County Retirement System

## INVESTMENT INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1999  
AND ENDING DECEMBER 31, 2001**

	<b>FOR THE PERIOD ENDING DECEMBER 31,</b>		
	<b>2001</b>	<b>2000</b>	<b>1999</b>
<b>Investment Income Received From:</b>			
Cash	153,192.56	282,171.98	271,768.71
Short Term Investments	0	9,778	192,150
Fixed Income	2,156,548	2,393,441	1,976,848
Equities	330,141	273,680	307,437
Pooled or Mutual Funds	948,399	2,555,793	898,612
Commission Recapture	0	0	0
<b>TOTAL INVESTMENT INCOME</b>	<b><u>3,588,281</u></b>	<b><u>5,514,864</u></b>	<b><u>3,646,815</u></b>
<b>Plus:</b>			
Increase in Amortization of Fixed Income Securities	0	0	134,012
Realized Gains	2,735,710	8,869,915	8,432,843
Unrealized Gains	10,482,655	7,012,638	15,675,976
Interest Due and Accrued on Fixed Income Securities - Current Year	292,776	283,911	282,759
<b>Sub Total</b>	<b><u>13,511,140</u></b>	<b><u>16,166,465</u></b>	<b><u>24,525,590</u></b>
<b>Less:</b>			
Decrease in Amortization of Fixed Income Securities	0	0	0
Paid Accrued Interest on Fixed Income Securities	(92,335)	(103,061)	(114,625)
Realized Loss	(7,998,247)	(10,392,564)	(5,722,280)
Unrealized Loss	(14,506,641)	(10,595,414)	(3,190,697)
Custodial Fees Paid	0	0	0
Consultant Fees Paid	0	0	0
Management Fees Paid	0	0	0
Board Member Stipend	0	0	0
Interest Due and Accrued on Fixed Income Securities - Prior Year	(283,911)	(282,759)	(279,430)
<b>Sub Total</b>	<b><u>(22,881,134)</u></b>	<b><u>(21,373,798)</u></b>	<b><u>(9,307,032)</u></b>
<b>NET INVESTMENT INCOME</b>	<b><u>(5,781,713)</u></b>	<b><u>307,531</u></b>	<b><u>18,865,373</u></b>
<b>Income Required:</b>			
Annuity Savings Fund	652,885	672,869	714,928
Annuity Reserve Fund	341,145	326,641	301,400
Military Service Fund	371	428	491
Expense Fund	1,000,375	913,717	1,055,680
<b>TOTAL INCOME REQUIRED</b>	<b><u>1,994,776</u></b>	<b><u>1,913,655</u></b>	<b><u>2,072,499</u></b>
Net Investment Income	<u>(5,781,713)</u>	<u>307,531</u>	<u>18,865,373</u>
Less: Total Income Required	<u>1,994,776</u>	<u>1,913,655</u>	<u>2,072,499</u>
<b>EXCESS INCOME TO THE PENSION RESERVE FUND</b>	<b><u>(\$7,776,489)</u></b>	<b><u>(\$1,606,124)</u></b>	<b><u>\$16,792,874</u></b>

# Hampshire County Retirement System

## **STATEMENT OF ALLOCATION OF INVESTMENTS OWNED**

(percentages by category)

**FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001**

	BOOK VALUE*	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash	\$3,561,641	\$3,561,641	3.07%	100
Short Term	0	0	0.00%	100
Fixed Income	25,842,879	25,842,879	22.30%	40 - 80
Equities	34,737,647	34,737,647	29.97%	40
Pooled Short Term Funds	0	0	0.00%	
Pooled Domestic Equity Funds	27,779,328	27,779,328	23.97%	
Pooled International Equity Funds	14,671,807	14,671,807	12.66%	
Pooled Global Equity Funds	0	0	0.00%	
Pooled Domestic Fixed Income Funds	0	0	0.00%	
Pooled International Fixed Income Funds	0	0	0.00%	
Pooled Global Fixed Income Funds	0	0	0.00%	
Pooled Alternative Investment Funds	661,601	661,601	0.57%	
Pooled Real Estate Funds	8,646,553	8,646,553	7.46%	
Pooled Domestic Balanced Funds	0	0	0.00%	
Pooled International Balanced Funds	0	0	0.00%	
PRIT Cash Fund	0	0	0.00%	
PRIT Core Fund	0	0	0.00%	100
<b>GRAND TOTALS</b>	<b><u>\$115,901,456</u></b>	<b><u>\$115,901,456</u></b>	<b><u>100.00%</u></b>	

\* The book value differs from the market value for individually owned Fixed Income Securities which are valued at amortized cost which is the original cost of the investment plus or minus any bond discount or bond premium calculated ratably to maturity. All other investments are reflected at their quoted market value.

For the year ending December 31, **2001**, the rate of return for the investments of the **Hampshire County Retirement System** was -4.88%. For the five-year period ending December 31, **2001**, the rate of return for the investments of the **Hampshire County Retirement System** averaged 8.61%. For the seventeen years-year period ending December 31, **2001**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Hampshire County Retirement System** was 10.17%.

# **Hampshire County Retirement System**

## **SUPPLEMENTARY INVESTMENT REGULATIONS**

**FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001**

The **Hampshire County** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

October 29, 1989

- 20.07(6) Sales of equity investments shall not exceed 120% of the average market value of all equity holdings in any twelve-month period.

December 12, 1990

- 20.03(1)(a) Domestic equities shall not exceed 40% of the total book value of the portfolio at the time of purchase.
- 20.03(1)(b) International equities shall not exceed 5% of the total book value of the portfolio at the time of purchase.
- 20.04(1) United States based corporations and equities of foreign corporations.
- 20.06(8) Purchases and sales of fixed income investments with maturities exceeding one year shall not exceed 200% of the market value of all fixed income obligations in any twelve month period, excluding cash and short term obligations.
- 20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.
- 20.07(6) Purchase and sales of equity investments shall not exceed 200% of the average market value of all equity holdings in any twelve-month period.

January 29, 1991

- 20.07(9) Commingled real estate equity trusts shall not exceed 10% of the total market value of the portfolio at the time of purchase provided that:
- (a) trust participants do not participate in the selection of trustees and should this be required, prior to any participation by the Board, the Board shall consult with PERAC to determine the appropriate course of action, and
  - (b) such trustees retain authority in the decision making process, and
  - (c) should an investment in a trust result in a direct ownership of real estate, such shall be permitted only until such time as divestiture is prudent.

December 10, 1992

- 20.04(6) American Depository Receipts denominated in U.S. currency and listed on a United States stock exchange or traded over the counter in the United States, provided that the total of all such investments shall be considered part of the Board's equity asset allocation and shall not exceed 1% of the total market value of the portfolio.

January 18, 1994

- 20.07(9) Commingled real estate shall be considered a separate asset class and shall not exceed 10% of the total book value of the portfolio at the time of purchase provided that:

## **Hampshire County Retirement System**

### **SUPPLEMENTARY INVESTMENT REGULATIONS (CONTINUED)**

#### **FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001**

(a) the retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;

(b) such personnel retain authority in the decision making process, and

(c) should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

February 10, 1994

16.02(3) The board may incur expenses for investment advice or management of the funds of the system by a qualified investment manager and the board may incur expenses for consulting services. Expenses for investment management and consulting services may be charged against earned income from investments provided that the total of such expenses shall not exceed in any one year:

(a) 1% of the value of the fund for the first \$5 million; and

(b) 0.5% of the value of the fund in excess of \$5 million.

16.02(4) The board may employ a custodian bank and may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one year .08% of the value of the fund.

20.03(1)(a) Domestic equities shall not exceed 40% of the total book value of the portfolio at the time of purchase.

(b) International equities shall not exceed 10% of the total book value of the portfolio at the time of purchase.

20.03(2) At least 35% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year.

February 27, 1996

20.03(1) Equity investments shall not exceed 56% of the total market value of the portfolio, including international equities which shall not exceed 14% of the total market value of the portfolio.

July 25, 1996

21.00(3) Futures Contracts other than as follows:

(a) Forward Currency Contracts may be written against securities in the international portfolio by an investment advisor registered under the Investment Advisors Act of 1940 and who has been granted a waiver from PERAC for international investments.

## Hampshire County Retirement System

### SUPPLEMENTARY INVESTMENT REGULATIONS (CONTINUED)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001

- (b) Forward Currency Contracts may be written against securities in the international portfolio to a maximum of twenty-five percent (25%) of the international portfolio's non-dollar holdings at market value. Speculative currency positions unrelated to underlying portfolio holdings are strictly prohibited.

August 15, 1996

- 20.08(e) Enrollment in the Securities Lending Program associated with the John Hancock Special Equity Fund provided that the lending of securities is limited to brokers, dealers, and financial institutions and that the loan is collateralized by cash or United States Government securities according to applicable regulatory requirements.

January 8, 1997

- 20.03(1) Equity investments shall not exceed 50% of the total market value of the portfolio, including international equities which shall not exceed 14% of the total market value of the portfolio.

- 20.08(e) Enrollment in the Securities Lending Program associated with the board's custodian bank, State Street Bank & Trust and with the John Hancock Special Equity Fund provided that the lending of securities is limited to brokers, dealers, and financial institutions and that the loan is collateralized by cash or United States Government securities according to applicable regulatory requirements.

July 17, 1998

- 20.07(9) Commingled real estate shall not exceed 10% of the total book value of the portfolio at the time of purchase provided that:

- (a) the retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;
- (b) such personnel retain authority in the decision making process, and
- (c) should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

**NOTE:** In reference to PERAC Memo #44/1999, the Board has reviewed and voted to rescind all these supplemental investment regulations and waivers pursuant to current 840 CMR 16.00-21.00. Approved by PERAC in a letter dated April 17, 2002 by Joseph I. Martin, Deputy Executive Director.

# **Hampshire County Retirement System**

## **NOTES TO FINANCIAL STATEMENTS**

**FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001**

### **NOTE 1 - THE SYSTEM**

The plan is a contributory defined benefit plan covering all **Hampshire County** Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

# **Hampshire County Retirement System**

## **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

### **FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001**

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

### **NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.



# Hampshire County Retirement System

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### **FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001**

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Hampshire County** Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

December 12, 1984

Employees who work more than 20 hours per week must become members in the Hampshire County Retirement System. Employees who have worked 130 days per year and whose pay is at least \$3,500.00 must become members of the retirement system.

Employees who qualify for membership and work the minimum of twenty (20) hours per week but less than forty (40) hours per week shall be granted creditable service prorated on the basis of a forty-hour week.

# **Hampshire County Retirement System**

## **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

### **FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001**

Cafeteria Workers and Teachers Aides who regularly work five (5) hours or more per day shall be granted full time creditable service. Full time service means forty (40) hours a week.

Creditable Service for Reserve police officers and call firefighters shall be credited as one (1) year for each five (5) years worked not to exceed five (5) years, provided that the call firefighter or reserve police officer is later appointed a permanent member of the force.

Refunds to former members for interest earned shall be calculated and granted according to actual service time not creditable service time for call firefighters and intermittent police.

#### **NOTE 4 - ADMINISTRATION OF THE SYSTEM**

The System is administered by a five person Board of Retirement consisting of a Chairman who shall be elected by the board members, a second member elected by the county retirement board advisory council, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Chairman:	Patrick E. Brock	Term Expires:	12/31/08
Appointed Member:	John J. Lillis	Term Expires:	12/31/05
Elected Member:	Edward R. Montleon	Term Expires:	12/31/05
Elected Member:	Joseph A. Wilhelm III	Term Expires:	12/31/04
Appointed Member:	John B. Walsh	Term Expires:	12/31/04

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

# Hampshire County Retirement System

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### **FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001**

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:	)	
Ex officio Member:	)	\$30,000,000
Elected Member:	)	Travelers, Federal, Executive Risk
Appointed Member:	)	
Staff Employee:	)	

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by **The Segal Group, Inc.** as of **January 1, 2002**.

The actuarial liability for active members was	\$107,063,614
The actuarial liability for inactive and vested members was	1,614,140
The actuarial liability for retired members was	87,645,849
The total actuarial liability was	<b>196,323,603</b>
System assets as of that date (actuarial basis) were	128,007,362
The unfunded actuarial liability was	<b>\$68,316,241</b>
The ratio of system's assets to total actuarial liability was	65.2%
As of that date the total covered employee payroll was	\$58,453,919

The normal cost for employees on that date was 8.15% of payroll

The normal cost for the employer was 6.48% of payroll

The principal actuarial assumptions used in the valuation are as follows:

**Investment Return:** 8.00% per annum

**Rate of Salary Increase:** 5.50% per annum

# Hampshire County Retirement System

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001**

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION  
AS OF JANUARY 1, 2002

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets ( a )</b>	<b>Actuarial Accrued Liability ( b )</b>	<b>Unfunded AAL (UAAL) ( b-a )</b>	<b>Funded Ratio ( a/b )</b>	<b>Covered Payroll ( c )</b>	<b>UAAL as a % of Cov. Payroll ( (b-a)/c )</b>
1/1/2002	\$128,007,362	\$ 196,323,603	\$ 68,316,241	65.2%	\$58,453,919	116.9%
1/1/2000	109,844,400	173,148,000	63,303,600	63.4%	52,500,000	120.6%
1/1/1999	96,706,300	166,058,900	69,352,600	58.2%	54,799,500	126.6%
1/1/1998	85,351,600	154,164,200	68,812,600	55.4%	52,420,600	131.3%
1/1/1996	62,822,500	120,964,500	58,142,000	51.9%	46,895,300	124.0%

## Hampshire County Retirement System

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001**

#### NOTE 6 - MEMBERSHIP EXHIBIT

<b>Retirement in Past Years</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
Superannuation	31	61	27	42	52	32	50	38	40	35
Ordinary Disability	2	1	0	0	0	0	1	0	1	1
Accidental Disability	3	3	4	4	3	4	2	2	2	1
<b>Total Retirements</b>	<b>36</b>	<b>65</b>	<b>31</b>	<b>46</b>	<b>55</b>	<b>36</b>	<b>53</b>	<b>40</b>	<b>43</b>	<b>37</b>
Total Retirees, Beneficiaries and Survivors	730	780	786	812	831	850	881	886	893	920
<b>Total Active Members</b>	<b>2,326</b>	<b>2,339</b>	<b>2,436</b>	<b>2,508</b>	<b>2,259</b>	<b>2,413</b>	<b>2,459</b>	<b>2,239</b>	<b>2,644</b>	<b>2,516</b>
<b>Pension Payments</b>										
Superannuation	\$3,096,196	\$3,594,687	\$3,873,328	\$4,094,078	\$4,247,978	\$4,718,007	\$5,012,051	\$5,408,287	\$6,078,058	\$6,401,617
Survivor/Beneficiary Payments	252,432	267,707	284,443	594,522	336,643	334,684	352,331	365,910	355,961	379,840
Ordinary Disability	98,617	106,860	98,634	93,943	94,391	94,817	110,087	107,894	101,794	106,941
Accidental Disability	737,781	794,513	854,880	873,556	959,104	975,159	1,015,673	1,025,626	1,090,871	1,122,824
Other	559,819	587,098	702,908	492,337	798,649	826,005	921,627	962,969	483,082	1,020,831
<b>Total Payments for Year</b>	<b><u>\$4,744,845</u></b>	<b><u>\$5,350,865</u></b>	<b><u>\$5,814,193</u></b>	<b><u>\$6,148,436</u></b>	<b><u>\$6,436,765</u></b>	<b><u>\$6,948,672</u></b>	<b><u>\$7,411,769</u></b>	<b><u>\$7,870,685</u></b>	<b><u>\$8,109,766</u></b>	<b><u>\$9,032,054</u></b>